

# IDAHO OUTLOOK

## NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

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Each spring the Idaho Division of Financial Management (DFM) identifies newly passed laws that will impact the state's General Fund in the upcoming fiscal year. The estimated fiscal impacts, in turn, will be incorporated into the next (August 2008) round of revenue projections. A summary of this year's laws and their fiscal impacts are cataloged in DFM's *2008 Budget Activities Summary* report. The table below is taken from this report and includes each bill's number, a short description of each bill, and its fiscal impact on each General Fund category. For example, House Bill 357 expanded the sales tax exemption to prescriptions written by any licensed provider, so its \$150,000 impact is listed in the sales tax column. It should be noted that some laws have fiscal impacts in more than one category. An example is House Bill 342 which reduces both the Individual and Corporate General Fund revenues by \$100,000.

As the table shows, 15 bills with fiscal impacts were passed in 2008. Most of these bills decrease the state's FY 2009 General Fund, while a smattering of bills increase revenues. Not only do bills with negative fiscal impacts outnumber those with

positive fiscal impacts four-to-one, but their dollar amounts dwarf the amounts for bills with positive fiscal impacts. Specifically, the sum of the bills that decrease next year's revenue is \$70.152 million, compared to \$975,000 total for bills which increase revenues. The net impact is a \$69.177-million decrease to the General Fund in FY 2009.

Having just reviewed the whole, we now focus our attention on the parts of the fiscal impacts. The Individual Income Tax is the category most heavily impacted by this year's law changes. Its estimated \$43.952-million decrease accounts for about 64% of next year's net fiscal impact. The Corporate Income Tax has the next largest decrease of \$19.175 million. The Sales Tax is expected to decrease \$95,000, which is negligible compared to its huge base. There is an estimated \$6.180 million negative fiscal impact to Product Taxes. The Miscellaneous category is the only one that receives a small increase (\$225,000), which results from Senate Bill 1413 that changes the requirements for obtaining a retail liquor license.

The largest single impact is \$38 million from House Bill 615, which is evenly

split between the Individual Income and Corporate Income taxes. This bill updates the Idaho Code to include features of *The Economic Stimulus Act of 2008*. The next largest impact results from House Bill 588. This bill's \$23.5 million price tag results from increasing the state's grocery tax credit from \$20 to \$50 per qualified exemption in 2008 for Idaho households with less than \$1,000 taxable income. The grocery tax credit for households with more than \$1,000 of taxable income rises from \$20 to \$30 per exemption in 2008. The bill also raises the additional \$15 credit for senior Idahoans to \$20. In addition, it allows more Idahoans who are not required to file tax returns to claim the grocery tax credit. Together, these bills account for almost 90% of FY 2009's total fiscal impact.

This is the last month that the *Idaho Outlook* will be printed and mailed to subscribers. However, DFM will continue to prepare and post electronic copies of the monthly *Idaho Outlook* on its website at [http://dfm.idaho.gov/Publications/Econ\\_Publications.html](http://dfm.idaho.gov/Publications/Econ_Publications.html). If you would like to be contacted by email when each report is posted, please send your name and email address with *Idaho Outlook* in the subject line to [info@dfm.idaho.gov](mailto:info@dfm.idaho.gov).

FY 2009 General Fund Fiscal Impacts by Tax Type							
Bill	Description	Tax Type					
		Ind. Income	Corp. Income	Sales	Product	Misc.	Total
HB 342	IRC Conformity bill	(100,000)	(100,000)	0	0	0	(200,000)
HB 357	Sales tax, prescription exemption	0	0	(150,000)	0	0	(150,000)
HB 358	Cigarette, permit expiration	0	0	0	250,000	0	250,000
HB 360	Sales tax, retailer substantial nexus	0	0	500,000	0	0	500,000
HB 400	Liquor account community colleges	0	0	0	(300,000)	0	(300,000)
HB 431	Small employer, tax incentive	0	(75,000)	(25,000)	0	0	(100,000)
HB 469	Property rental, personal property tax	0	0	(400,000)	0	0	(400,000)
HB 530	Property tax relief, income	0	0	(20,000)	0	0	(20,000)
HB 549	Income tax, college savings plan	(52,000)	0	0	0	0	(52,000)
HB 563	Income tax, capital gain deduction	(1,000,000)	0	0	0	0	(1,000,000)
HB 564	Income tax, paid to another state	(300,000)	0	0	0	0	(300,000)
HB 588	Income tax, grocery credit	(23,500,000)	0	0	0	0	(23,500,000)
HB 615	Internal Revenue Code reference	(19,000,000)	(19,000,000)	0	0	0	(38,000,000)
HB 673	Bond Levy Equalization - Reduce Cig Tax Dist	0	0	0	(6,130,000)	0	(6,130,000)
SB 1382	Liquor license, revised*	0	0	0	0	225,000	225,000
<b>Total</b>		<b>(43,952,000)</b>	<b>(19,175,000)</b>	<b>(95,000)</b>	<b>(6,180,000)</b>	<b>225,000</b>	<b>(69,177,000)</b>

\*Includes impacts of SB 1413 and SB 1455.

C.L. "BUTCH" OTTER, Governor

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## General Fund Update

As of May 31, 2008

<u>Revenue Source</u>	<u>\$ Millions</u>		
	FY 2008 Executive Estimate <sup>3</sup>	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,378.9	1,293.2	1,339.8
Corporate Income Tax	169.4	148.0	158.7
Sales Tax	1,166.0	1,066.8	1,047.4
Product Taxes <sup>1</sup>	26.8	24.6	24.6
Miscellaneous	120.9	59.0	61.7
<b>TOTAL GENERAL FUND<sup>2</sup></b>	<b>2,862.0</b>	<b>2,591.5</b>	<b>2,632.3</b>

<sup>1</sup> Product Taxes include beer, wine, liquor, tobacco and cigarette taxes  
<sup>2</sup> May not total due to rounding  
<sup>3</sup> Revised Estimate as of February 2008

General Fund revenue was \$7.6 million lower than expected in May, returning to the trend of lower-than-expected monthly revenue that has dominated the second half of FY 2008. Fiscal year-to-date revenue now stands \$40.8 million higher than expected with just one month remaining in the fiscal year. The primary reason for May's shortfall is weakness in the sales tax (\$7.2 million lower than expected), with a timing-related impact in the interest earning component of the miscellaneous category contributing another \$5.1 million to the month's weakness. Strong individual income tax performance in May provided a \$6.3 million positive offset.

Individual income tax revenue was \$6.3 million higher than expected in May, and now stands \$46.6 million above the fiscal year-to-date predicted amount. May's strength was dominated by refunds that were \$12.3 million lower than expected for the month. This masked a second consecutive month of significant withholding weakness, with May coming in \$6.5 million lower than expected. May was also the second straight month of negative year-over-year

withholding growth—April was down 3.9% and May was down 1.8% relative to a year earlier. Filing collections were almost on target for May, coming in \$0.7 million higher than expected. On a fiscal year-to-date basis through May, refunds are \$17.7 million higher than expected, withholding collections are \$17.6 million lower than expected, and filing collections are \$84.0 million higher than expected.

Corporate income tax revenue was \$1.3 million below expectations in May and now stands \$10.7 million ahead on a fiscal year-to-date basis. Gross collections were \$1.3 million higher than expected in May, with \$1.4 million due to estimated payments. Filing payments were a slight drag at \$0.1 million low. Refunds were \$0.2 million lower than expected in May. On a fiscal year-to-date basis through May, filing collections are \$6.6 million higher than expected, estimated payments are \$5.5 million higher than expected, and refunds are \$0.6 million higher than expected.

Sales tax revenue was \$7.2 million lower than expected in May, and it now stands

\$19.4 million below the fiscal year-to-date predicted amount. May was the weakest month so far in FY 2008, and marks the fifth consecutive month of revenue below expectations. Gross sales tax collections for the month of May 2008 were expected to grow by 1.5% relative to May 2007, but actually declined by 4.9%. Gross sales tax collections for all of FY 2008 are expected to be up 0.8%, but as of the end of May on a cumulative basis are actually down by 0.7% (this is on a normalized basis to remove the effect of the sales tax rate increase that occurred midway through FY 2007).

Product taxes were exactly on target in May and remain on target on a fiscal year-to-date basis. Miscellaneous revenues were \$5.5 million lower than expected in May due primarily to timing of interest earnings. Interest earnings in May were \$5.1 million lower than predicted for the month, but this just brings fiscal year-to-date interest earnings to \$0.2 million above the predicted amount. Overall miscellaneous revenues are \$2.7 million higher than expected for the first 11 months of FY 2008.